







NORTHERN ()HIO TELEPHONE OMPANY

1955 Annual Report

YEAR ENDED DECEMBER 31, 1955



• The Annual Meeting of Stockholders will be held at 2:00 P.M. on May 15, 1956, at the offices of the Company, 117 North Sandusky Street, Bellevue, Ohio. Formal Notices will be mailed to all Common Stockholders on April 30, 1956, and proxies will be requested.

NORTHERN OHIO TELEPHONE COMPANY 117 North Sandusky Street

Bellevue, Ohio

DIRECTORS ____

* ALLAN G. AIGLER

Aigler and Aigler, Attorneys
Bellevue

JOHN A. AIGLER

Commercial Department of the Company Bellevue

THOMAS A. BOYD

Senior Vice President General Telephone Corporation New York

CHARLES H. CAMPBELL

Agent The Equitable Life Assurance Society Ashland

ROBERT T. CAMPBELL

Production Superintendent The North Electric Manufacturing Co. Galion

* HERBERT A. ERF

The H. A. Erf Acoustical Company Shaker Heights

JOHN S. FLEEK

Consultant Hayden, Miller and Company Shaker Heights

CHARLES A. HENRY

President, H & S Sales Co.
Bellevue

WM. C. HENRY *

President and General Manager of the Company Norwalk

IRA L. PORTER

President
The Peoples Banking Company
Oberlin

HERMANN H. THORNTON

Head of Department of Foreign Languages, Michigan State College East Lansing, Mich.

FRED W. UHLMAN *

President, F. W. Uhlman and Company Bowling Green

DUDLEY A. WHITE

President Sandusky Newspapers, Inc. Norwalk

FRED G. WILLIAMSON

General Plant Superintendent of the Company Bellevue

JOHN E. WISE *

President
The Citizens National Bank of Norwalk
Norwalk

* Executive Committee

OFFICERS

ALLAN G. AIGLER

Chairman of the Board

WM. C. HENRY

President and General Manager

JOHN E. WISE

Vice President

WILLIAM H. TODD

Secretary and Treasurer



OURS is a business inseparately charged with rendering a vital service to the public. The degree to which we meet our responsibility will be beneficial alike to our subscribers, our stockholders and our employees.

WM. C. HENRY, President

ANNUAL REPORT

FOR THE YEAR 1955

Report to the Stockholders:

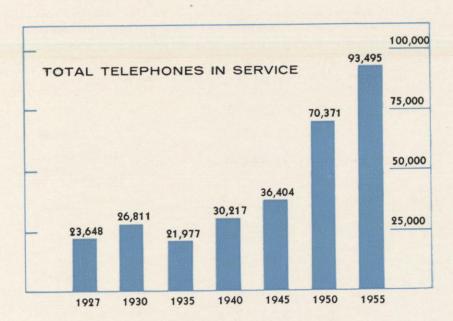
Northern Ohio Telephone Company's operations in 1955 reflected the unprecedented level of business activity and prosperity enjoyed by the nation. The growth in population and in number of homes, the increase in the tempo of industry and the higher standard of living of the people in the territory we serve resulted in new highs in number of telephones, volume of long distance calls, net additions to plant, operating revenue and net earnings. New highs were also experienced in operating expenses, taxes and wages paid.

The increase of 5,428 telephones, of which 1,483 were rural subscribers, was the largest of any year. It exceeded by almost 7 per cent the previous highest annual gain in stations registered in 1951, when there was a large backlog of requests for service following World War II. Marked progress was made in reducing the number of "held orders" for primary service. At year end there were 299 unsatisfied orders for service, and all but two of these were in rural areas requiring plant construction.

We were able to provide business subscribers with the class of service requested, but we have a substantial accumulation of requests from residence subscribers desiring individual line service. An increasing number of requests for an improved class of service are also being received from subscribers in the suburban or rural areas. The monthly rates for telephone service have increased much less than the total cost of living since 1940, and telephone service today is one of the best bargains any family can purchase. As long as personal income continues to increase, we believe an increasing proportion of our subscribers will desire individual rather than party line service.

The volume of long distance calls continued to increase. For the year we completed almost seven million toll calls, representing an

increase of 10.4 per cent over 1954. This is the largest increase in number of completed calls for any year. An increasing percentage of long distance calls are being dialed to completion by our operators, with the calling subscriber remaining on the line. As the service improves and the interval required to complete a toll call is reduced, the volume of traffic continues to record new highs with each succeeding year.



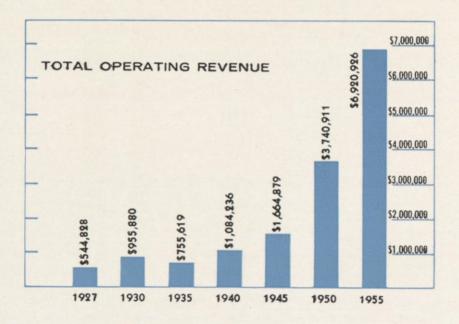
REVENUES AND EXPENSES

Operating revenues for the year were \$6,923,837.53, an increase of \$439,582.60 or slightly less than 7 per cent over the previous year. About two-thirds of this increase was due to the added number of telephones and the trend toward a higher grade of service for existing subscribers. The remaining one-third was due to the greater volume of toll calls, directory advertising and miscellaneous revenue.

Operating expenses, exclusive of taxes, were \$3,460,646.42, an increase of \$312,511.95 or approximately 10 per cent more than for 1954. Expenses in each principal operating account showed an increase. Maintenance was up due to increased wage rates, and the

addition of more maintenance personnel and their vehicles. Traffic expenses were more, chiefly by reason of higher hourly rates of pay. Commercial and general office expenses were up due to additional personnel as well as higher wage rates. Other operating expenses reflected a substantial increase in relief and pensions by reason of an actuarial study, together with other minor increases.

Depreciation, or the annual provision for the decrease in the value of our telephone plant by reason of wear or obsolescence, was \$755,022.48, an increase of \$68,331.72, or 10 per cent. The annual rate of 3.894 per cent applied to our depreciable property remained the same, but the higher total was by reason of the increase in amount of telephone property in service and subject to depreciation.

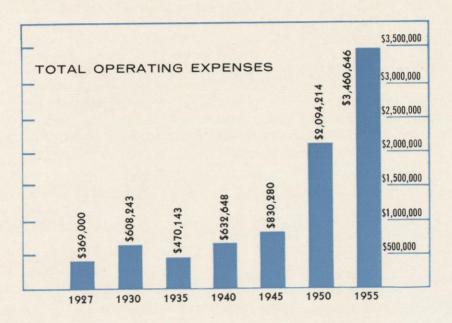


TAXES AND NET INCOME

The total paid or set aside for various taxes, including Federal income which amounts to 52 per cent of our net income, State of Ohio excise of 3 per cent of our total revenue, County, Unemployment, Old Age Benefits, P.U.C.O. and Miscellaneous taxes, was \$1,934,723.36. This was only \$38,244.82 more than for 1954 due to

an extra tax item of \$125,633 in the previous year. Taxes require 28 cents out of each dollar of our total operating revenue, and amounted to \$21.20 for the year, or \$1.77 per month, for each telephone in service. For each one dollar paid in dividends, \$2.82 was paid in wages and \$2.62 paid or accrued for taxes.

In addition to the direct taxes paid by the Company, we collected from our subscribers Federal excise taxes, on local and long distance service, amounting to \$702,129.37. This war-time tax is highly discriminatory, and Congress should repeal it. It is a levy, not on a luxury item, but on an essential service vital to the economic and social welfare of people everywhere.



Fixed charges for interest on the three issues of outstanding mortgage bonds, other interest and amortization of the expense incurred in the original issuance and sale of the bonds, were \$200,539.74, or approximately the same as for the previous year.

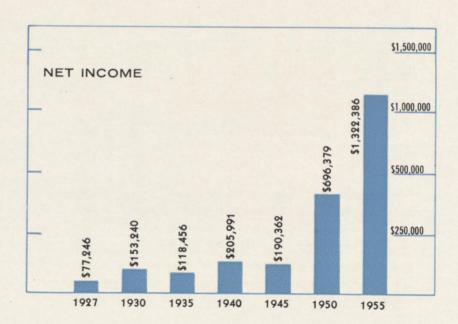
Net income was \$1,340,927.15, an increase of \$91,450.38, or 7.3 per cent. The net before fixed charges of bond interest, preferred and common dividends, was 6.7 per cent on our year-end book value

of telephone plant. These earnings however reflect for less than six months the increased hourly wage rates effective July 25, 1955.

Regular quarterly dividends were paid in their full amount on the three classes of preferred stock. This is the 55th year in which this Company and its predecessor, The Local Telephone Company, has mailed its preferred stockholders quarterly dividend checks.

Dividends of $$1.32\frac{1}{2}$ per share were paid on the common capital stock, and \$576,786, or \$1.64 a share was added to retained earnings for protection of each share.

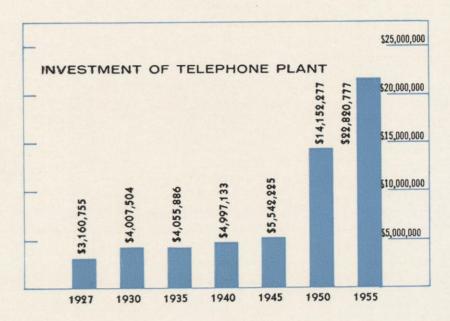
Adequate earnings benefit both the Company and its subscribers. They permit the sale, at the most favorable rate, of the Company's securities. So long as the public demand increased and improved services, large amounts of new capital must be raised and invested in telephone plant. Retained earnings or surplus are invested in the Company and help to provide some portion of the capital required. A reasonable level of earnings permits us to continue to expand and improve our service to the public. The continuation of proper earnings depends upon a sustained high level of business activity coupled with our ability to keep operating expenses and revenues in proper balance. Inadequate earnings penalize the Company as well as its telephone subscribers.



CAPITAL ADDITIONS

An aggressive program of improvement to plant and service, together with the large growth in stations, resulted in the largest construction program in the history of the Company. Gross additions to telephone plant amounted to \$2,902,004.75, with gross removals of \$1,014,937.70. Net additions were \$1,887,067.05, an increase of \$116,096.09, or just under 7 per cent more than for the year 1954. A net expenditure of \$591,699.55 was made for new or larger cable distribution, \$359,714.88 was spent for additions to automatic exchange equipment and toll switchboards, while subscribers' station apparatus increased \$215,135.49 and \$66,988.26 was added to the cost of buildings.

The net book cost of each telephone in service at the year end was \$244.08. The 5,428 telephones gained in 1955 were at a cost of \$347.65 for each telephone. This is a significant factor in our operations and is an illustration of the increased level of costs in this business. Our total average investment for each station in service will continue to go up each year so long as present-day costs exceed the cost of property constructed in a previous period.



In order to keep pace with public demand, additional amounts of new capital must be secured. Accordingly, on December 28, 1955, the Board of Directors authorized the officers of the Company to sell 70,290 shares of common stock to raise two and one quarter million dollars. The stock will be offered to present common stockholders on the basis of one new share for each five shares owned, and at a price of \$32.00 per share. All unsubscribed shares will be offered to the public through an underwriting group the latter part of this month.

IMPROVEMENTS AND SERVICE

At the year end 92.8 per cent of our telephones provided automatic or dial type service. All but nine of our 66 exchanges now have automatic switching equipment, and three of the remaining manual exchanges are scheduled for conversion to dial service in 1956. The provision of modern dial local exchange service for all subscribers of this Company is programmed for completion by the end of 1958.

Existing groups of long distance circuits are being expanded and the number of trunks between exchanges are being increased to provide facilities for completion of increased volumes of traffic without delay. Our first installation of microwave radio equipment to provide 42 toll channels between Norwalk and Willard will be placed in service this summer.

Main or backbone distribution cables are being replaced or augmented with larger cables in many of our exchange areas in order to satisfy the increasing number of subscribers who desire an improved grade of service. It is expected that individual line service will be desired by an increasing proportion of our customers.

A program for reducing the maximum number of parties on a rural line, from ten to eight, has been started for the purpose of reducing excessive busy line conditions and thereby improving service. A greater number of people living outside corporation limits are requesting improved grades of telephone service. Engineering and construction is under way on a huge program of aerial cable plant to replace two crossarm leads and provide the additional facilities required in rural areas. This program will continue for several years before it is completed.

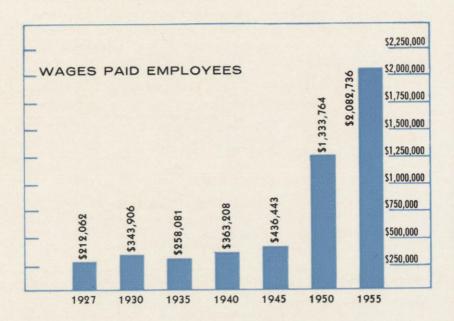
EMPLOYEES AND WAGES

Despite the increasing proportion of automatic service, the number of employees continues to increase. As additional telephones are added, more long distance toll operators, and more maintenance and commercial personnel are needed. At the end of 1955 we had 223 men and 552 women, or a total of 775 employees, an increase of nine over the previous year end.

Wages paid to these employees amounted to \$2,082,736.34, an increase of \$146,928.51, or 7.6 per cent. Increased hourly rates of pay resulted from collective bargaining, and were effective July 25, 1955, for a period of one year.

As of the end of the year 27 retired employees of the Company were receiving monthly checks provided in accordance with our Plan of Retirement Benefits.

A satisfactory over-all telephone service depends very largely upon the people who represent the Company. They not only work for the Company but to the public they are the Company. We are fortunate in having a dedicated group of supervisory people and a loyal and conscientious force of employees.



NEW OPPORTUNITIES

The 24 counties of Northern Ohio in which we operate are beginning to experience the business and industrial expansion that will result from the opening of the St. Lawrence Seaway. Coupled with the increase in population, the rising standard of living, the assumed large increase in the formation of future households in the decade of the 1960's, and this Company, with an intelligent and aggressive sales program, can look forward to an increase in telephones of between 30 and 40 per cent by 1970.

In addition to the tremendous market for individual line service and extension telephones, new services, including colored telephones, electronic secretaries, aids for impaired hearing, inter-communicating systems, hands-free telephones, keys and other services, open a wide field of sales opportunities.

Direct distance dialing, in which the subscriber will dial long distance calls in the same manner local calls are now completed, has passed the experimental stage. In 1957 this Company's toll center at Medina will provide our subscribers with this latest improvement in long distance service.

One of the recent technical advances in the telephone industry has been the transistor which will largely replace costly vacuum tube equipment. This offers the possibility of increasing local exchange channels through the use of carriers, and the development of an entirely new field in automatic central office equipment.

It will be our purpose to provide the best telephone service possible to the public whom we serve. This, we believe, will best protect the interests of both our subscribers and our stockholders.

Respectfully submitted,

working

President and General Manager

Bellevue, Ohio March 2, 1956

COMPARATIVE BALANCE SHEET

Assets		
PLANT AND OTHER INVESTMENTS	Dec. 31, 1955	Dec. 31, 1954
Telephone plant in service—Note A	\$22,820,777.65	\$20,928,924.26
Comprises land, buildings, rights-of-way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, motor equipment, and tools		
Telephone plant under construction—at cost	210,956.23	158,148.76
Other investments	21,728.70	21,728.70
	\$23,053,462.58	\$21,108,801.72
CURRENT ASSETS		
Cash	\$ 841,850.73	\$ 802,752.02
Special cash deposits and working funds	34,178.34	31,903.24
Certificates of deposit—including accrued interest: 1955—\$1,979.16; 1954—\$10,205.37	101,979.16	1,510,205.37
United States Government securities—at cost plus accrued interest	403,172.13	249,570.28
Notes and land contracts receivable	23,746.72	4,040.22
Accounts receivable (including estimated unbilled: 1955—\$181,395.49; 1954—\$152,468.72) Amounts due for service, toll settlements, and miscellaneous items, less reserve for uncollectible accounts: 1955—\$27,968.73; 1954—\$23,579.95	668,806.92	576.007.97
Materials and supplies Principally for construction and maintenance	975,150.03	900,956.52
DEFERRED CHARGES	\$ 3,048,884.03	\$ 4,075,435.62
Prepayments	\$ 28,493.46	\$ 32,401.56
Discount on funded debt	35,036.37	37,089.69
	\$ 63,529.83	\$ 69,491.25
TOTAL ASSETS	\$26,165,876.44	\$25,253,728.59
See notes to financial statements on page 15.		

cember 31, 1955, and December 31, 1954

Liabilities

CAPITAL STOCK AND SURPLUS	Dec. 31, 1955	Dec. 31, 1954
Capital stock:		
Preferred stock—cumulative, \$100.00 par value; authorized 100,000 shares, issuable in series: 5% Class A Preferred stock (redeemable at \$110.00 per share): Authorized 12,000 shares; issued and outstanding 12,000 shares	\$ 1,200,000,00	\$ 1,200,000.00
5% Class B Preferred stock (redeemable at	\$ 1,200,000.00	\$ 1,200,000.00
\$105.00 per share): Authorized 26,000 shares; issued and outstanding—1955—12,531 shares; 1954—12,433 shares	1,253,100.00	1,243,300.00
4½% Preferred stock (redeemable at \$105.00 per share):		
Authorized 20,000 shares; issued and outstanding 20,000 shares	2,000,000.00	2,000,000.00
4½% Preferred stock (redeemable at \$105.00 per share):		
Authorized 12,000 shares; issued and outstanding 12,000 shares	1,200,000.00	1,200,000.00
Common stock, \$10.00 par value: Authorized 700,000 shares; issued and outstanding 351,450 shares—Note B	3,514,500.00	3,514,500.00
Installments paid on capital stock	1,437.50	1,845.50
S Note 6	\$ 9,169,037.50	\$ 9,159,645.50
Surplus— Note C: Capital surplus Earned surplus	\$ 2,561,965.99 2,438,115.21	\$ 2,561,965.99 1,861,329.21
	\$ 5,000,081.20	\$ 4,423,295.20
FILLIDED DEDT	\$14,169,118.70	\$13,582,940.70
FIRST Mortgage Rends gutherized \$15,000,000,00		
First Mortgage Bonds, authorized \$15,000,000.00, less \$48,000.00 redeemed through operation of sinking fund issuable in series—Note D:		
3½% Series, due November 1, 1982	\$ 1,800,000.00 2,752,000.00 1,600,000.00	\$ 1,800,000.00 2,752,000.00 1,600,000.00
	\$ 6,152,000.00	\$ 6,152,000.00
CURRENT AND ACCRUED LIABILITIES		
Accounts payable.	\$ 397,709.53	\$ 302,513.11
Amounts owing for payrolls, materials, supplies, toll settlements, subscribers' excise tax, and miscellaneous expenses		
Subscribers' advance billings and payments	130,197.21	120,680.97
Taxes accrued	1,648,492.28	1,701,382.83
Unmatured interest and dividenas	384,906.36	349,641.27
DEDDECLATION DESERVE	\$ 2,561,305.38	\$ 2,474,218.18
DEPRECIATION RESERVE	3.283,452.36	3,044,569.71
	.\$26,165,876.44	\$25,253,728.59
See notes to financial statements on page 15.		

NORTHERN OHIO TELEPHONE COMPANY

Comparative Statement of Income

Years ended December 31, 1955, and December 31, 1954

OPERATING REVENUES	1955	1954
Local service revenues	\$3,912,231.13	\$3,674,615.22
Toll service revenues	2,662,517.46	2,530,382.72 247,025.12
Directory advertising and sales	309,530.38 54,558.56	47,231.87
Miscellaneous revenues		
Less provision for uncollectible revenues	15,000.00*	15,000.00*
TOTAL OPERATING REVENUES	\$6,923,837.53	\$6,484,254.93
OPERATING EXPENSES		
Current maintenance	\$ 849,841.50	\$ 768,100.67
Cost of repairs, inspection, and rearrangements required to keep plant and equipment in good operating condition		
Depreciation expense	755,022.48	686,690.76
Provision for decrease in value of telephone plant by reason of wear or obsolescence		
This is at the rate of approximately 3.9% and 3.7% of average investment in depreciable plant in service during 1955 and 1954, respectively		
Traffic expenses	1,024,238.58	981,477.74
Operators' wages and other costs in handling messages		
Commercial expenses	357,631.27	323,083.79
Cost incurred in business relations with customers, advertising, pay station commissions and cost of directories		
General office expenses	187,875.42	179,999.12
Cost of preparing subscribers' bills, general ac- counting, salaries of officers, and legal expenses		
Other operating expenses	286,037.17	208,782.39
Pensions, insurance, building and pole rentals, and other operating expenses		
TOTAL OPERATING EXPENSES	\$3,460,646.42	\$3,148,134.47
COED ATIMO TAMES	\$3,463,191.11	\$3,336,120.46
OPERATING TAXES Federal taxes on income	\$1,429,182.96	\$1,414,089.77
Less adjustment of prior year's taxes	15,629.42	-0-
	\$1,413,553.54	\$1,414,089.77
County, state excise, social security, and other taxes.	521,169.82	482,388.77
TOTAL OPERATING TAXES	\$1,934,723.36	\$1,896,478.54
NET OPERATING INCOME	\$1,528,467.75	\$1,439,641.92
OTHER INCOME	12,999.14	15,074.60
NET INCOME BEFORE FIXED CHARGES	\$1,541,466.89	\$1,454,716.52
FIXED CHARGES		
	\$ 198,486.42	\$ 203,186.43
Interest expense	2,053.32	2,053.32
TOTAL FIXED CHARGES	\$ 200,539.74	\$ 205,239.75
NET INCOME	\$1,340,927.15	\$1,249,476.77
* Indicates red figures.		

NORTHERN OHIO TELEPHONE COMPANY

Statement of Surplus

Year ended December 31, 1955

Balance at January 1, 1,955, and December 31, 1955 (no change during the year)	\$2,561,965.99
EARNED SURPLUS Balance at January 1, 1955	\$1,861,329.21 _1,340,927.15
Deduct cash dividends declared:	\$3,202,256.36

On 5% Preferred stock—\$5.00 a share..... \$122,316.54 On 4½% Preferred stock—\$4.50 a share..... 90,007.09 On 41/4% Preferred stock—\$4.25 a share..... 51,000.00 On Common stock—\$1.425 a share.....

500,817.52 BALANCE AT DECEMBER 31, 1955..... \$2,438,115.21

NOTES TO FINANCIAL STATEMENTS

Note A—Telephone plant in service is stated at amounts fixed by The Public Utilities Commission of Ohio with respect to acquisitions from other companies, and other additions are included at cost as of dates of installation.

Note B—On December 28, 1955, the Board of Directors authorized the officers of the Company to sell 70,290 shares of common stock at a price of not less than \$28.00 a share.

Note C—Under the terms of the Eighth Supplemental Indenture dated November 1, 1952, to the First Mortgage Trust Deed, surplus amounting to \$1,893,700.65 is available for payment of cash dividends on common stock.

Note D—Secured by first mortgage on all telephone plant now owned or hereafter acquired. The Company covenants, while any of such bonds are outstanding, to provide a sinking fund by annual payment to the trustee, in cash or securities, of an amount equal to one per cent of the aggregate principal amount of bonds issued. The Company has the right to substitute 60 per cent of cost or fair value of permanent additions against which additional bonds have not been issued in lieu of cash or securities to meet sinking fund requirements. Sinking fund requirements have been complied with.

Note E—The contribution under the pension plan for employees of the Company amounted to \$123,349.03 for the year 1955, including a portion of past service costs. At December 31, 1955, the estimated unfunded portion of past service costs amounted to approximately \$572,000.00.

ERNST & ERNST

Union Commerce Building, Cleveland 14, Ohio

Board of Directors, Northern Ohio Telephone Company, Bellevue, Ohio.

CAPITAL SURPLUS

We have examined the balance sheet of Northern Ohio Telephone Company as of December 31, 1955, and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and surplus present fairly the financial position of Northern Ohio Telephone Company at December 31, 1955, and the results of its operations for the year then ended, in accordance with accounting principles as prescribed by The Public Utilities Commission of Ohio applied on a basis consistent with that of the preceding year.

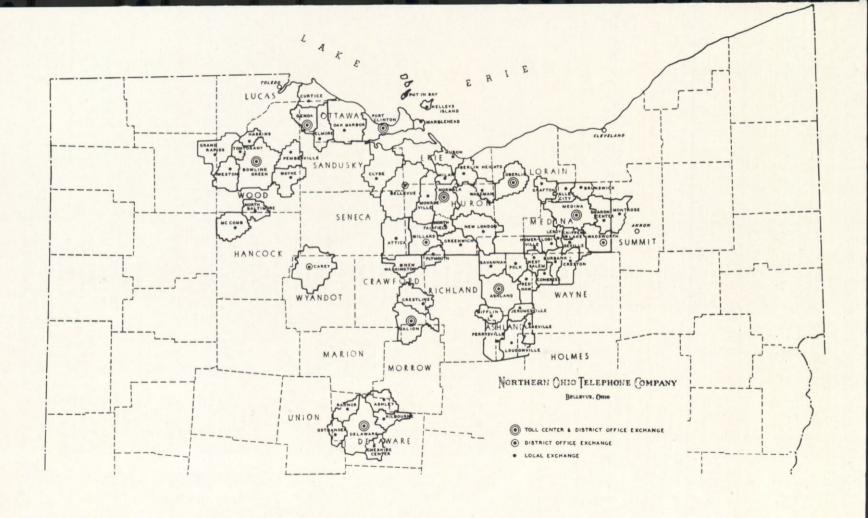
ERNST & ERNST Certified Public Accountants

764,141.15

Cleveland, Ohio February 2, 1956

Exchanges of Northern Ohio Telephone Company

Exchange	Type of Service	COMPANY TE	Jan. 1, 1956
			The state of the s
Ashland	Automatic	7967	8308
Ashley	Automatic Common Battery	467 701	492 731
Attica Bellevue	Automatic	3913	4093
Berlin Heights	Automatic	427	457
Bowling Green	Automatic	4361	4642
Brunswick	Automatic	913	1032
Burbank	Automatic	204	205
Carey	Automatic	1397	1459
Cheshire Center	Automatic	356	396
Chippewa Lake	Automatic	346	375
Clyde	Automatic Automatic	2377 201	2515 209
Congress Crestline	Automatic	1989	2080
Creston	Automatic	537	576
Curtice	Automatic	1618	1750
Delaware	Automatic	5549	5829
Elmore	Automatic	908	983
Galion	Automatic	4791	5338
Genoa	Automatic	1045	1131
Grafton	Automatic	590	625
Grand Rapids	Automatic Automatic	556 711	596 747
Greenwich Haskins	Automatic	193	210
Homerville	Automatic	130	133
Huron	Automatic	1676	1887
Jeromesville	Magneto	465	485
Kelleys Island	Automatic	92	99
Kilbourne	Automatic	223	242
Lakeville	Automatic	141	150
Leroy	Automatic Automatic	274 1028	327 1075
Lodi Loudonville	Common Battery	1372	1415
Marblehead	Automatic	700	756
McComb	Magneto	698	737
Medina	Automatic	4147	4366
Mifflin	Magneto	224	250
Milan	Automatic	641	704
Monroeville	Automatic	738	794
Montrose New London	Automatic Common Battery	2066 1213	2247 1273
New Washington	Automatic	563	584
North Baltimore	Automatic	1015	1059
Norwalk	Automatic	5243	5488
Oak Harbor	Automatic	1729	1873
Oberlin	Automatic	3211	3431
Ostrander	Automatic	298	330
Pemberville	Common Battery	568	581 539
Perrysville	Magneto Common Battery	524 678	716
Plymouth Polk	Automatic	301	304
Port Clinton	Automatic	3892	4114
Put-In-Bay	Automatic	224	231
Radnor	Automatic	192	197
Red Haw	Automatic	249	264
Savannah	Automatic	280	294
Seville	Automatic	590	618
Sharon Center	Automatic	737 222	765 233
Tontogany Valley City	Automatic Automatic	382	406
Wadsworth	Automatic	4496	4791
Wakeman	Automatic	378	395
Wayne	Automatic	728	785
Weston	Automatic	667	703
West Salem	Automatic	417	430
Willard	Automatic	2511	2645
Total T	elephones	. 88,040	93,495



Northern ()HIO TELEPHONE COMPANY